

# FDIC State Profile

Fall 2004

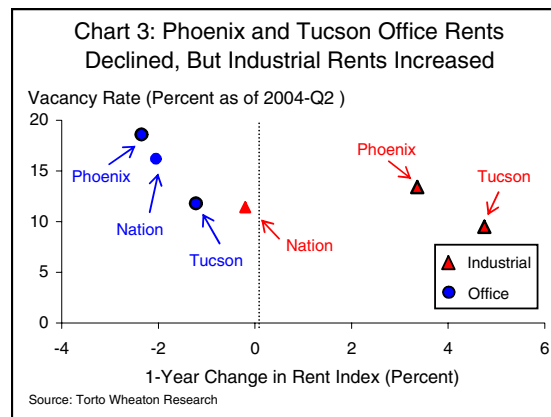
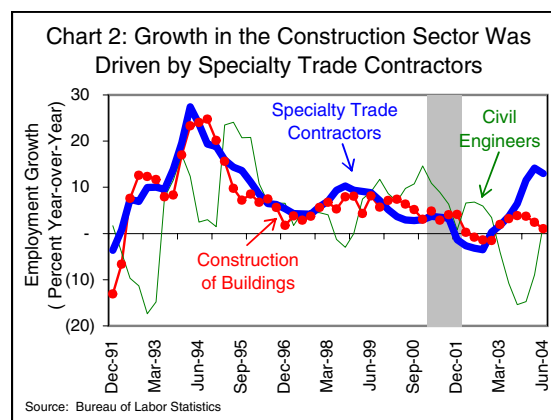
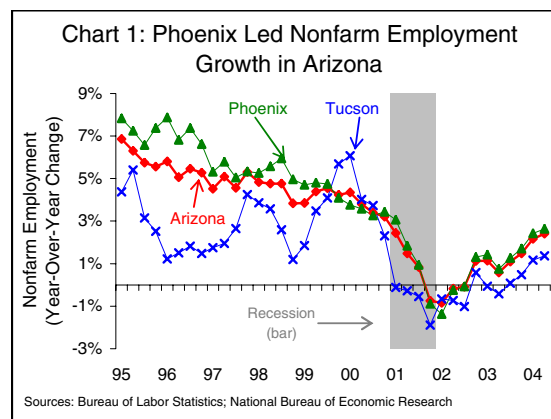
## Arizona

Arizona job growth remained strong, ranking third among the states during second quarter 2004

- The Phoenix and Tucson metropolitan statistical areas (MSAs) reported strong and increasing employment growth, ranking 18<sup>th</sup> and 76<sup>th</sup>, respectively, among 281 MSAs nationwide (See Chart 1).
- The state's construction sector posted an impressive 9 percent year-over-year growth rate in second quarter 2004. However, growth was uneven in the sector. Specialty trade contractors such as plumbers and electricians, which account for about two-thirds of all construction jobs, reported increases in hiring, while homebuilders reported relatively flat job growth (See Chart 2).
- The education and health services, professional and business services, and retail trade sectors also added jobs, which offset losses in the information, manufacturing, and wholesale trade industries.

**Commercial real estate conditions in the Phoenix and Tucson MSAs continue to warrant monitoring.**

- According to *Torto Wheaton Research* (TWR), Phoenix's office and industrial vacancy rates declined year-over-year in second quarter 2004, to 18.6 percent and 13.4 percent, respectively. Asking rents for office properties continued to decline while the asking rents for industrial space showed slight gains over year-ago levels (See Chart 3).
- TWR also reported falling year-over-year vacancy rates in the Tucson office market and relatively stable conditions in the MSA's industrial market during the same time period.
- As of second quarter 2004, the median commercial real estate (CRE)<sup>1</sup> loan-to-Tier 1 capital ratio among established community institutions<sup>2</sup> based in these MSAs moderated slightly to 504 percent, but remained significantly above the 290 percent median concentration



<sup>1</sup>CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

<sup>2</sup>Established community institutions are defined as insured institutions holding less than \$1 billion in total assets and open at least three years, excluding industrial loan companies and specialty institutions.

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reported by similar metropolitan-based institutions nationally.

- Construction and development (C&D) loans, traditionally a higher risk form of lending, remained significantly higher at established community institutions in the Phoenix and Tucson MSAs than the nation. C&D loans represented 136 percent of Tier 1 capital in these two metro areas compared to 54 percent for MSA-based established community institutions nationwide.
- Past-due CRE loan ratios continued to decline among Phoenix- and Tucson-based established community institutions, reaching a median of 0.25 percent in mid 2004 but may have benefited from strong loan growth. The median nonfarm-nonresidential and multifamily mortgage loan growth rate was nearly 30 percent within these markets on a year-over-year basis. The median growth rate for construction loans was also high at 26 percent.

### Growth in the number of businesses in Arizona continued to outpace the national rate, ranking 11<sup>th</sup> nationally in 2003.

- The number of firms in Arizona grew 1.7 percent during 2003. Although growth has moderated from the state's high of nearly 6 percent in the early 1990s, it nevertheless reflects the current economic strength in the state. Also, the number of business bankruptcies in the state has steadily declined since the early 1990s. About 700 firms filed for bankruptcy in 2003, nearly 30 percent less than the number that filed in 1990.
- Improved business conditions were evident in commercial loan growth rates among the state's insured institutions. Among banks and thrifts opened at least three years, the median annual commercial and industrial loan growth rate reached almost 24 percent. Small business loans (those with original amounts of less than \$1 million) increased 16 percent year-over-year on a median basis (See Chart 4).

### Earnings among Arizona's insured institutions remained relatively low and declined year-over-year.

- The year-to-date median return-on-assets (ROA) ratio among Arizona-based institutions was 0.86 percent through June 2004, moderately lower than 0.90 percent in mid-2003, and well below the 1.03 percent national median. Although net interest margins and provision expense-to-average asset ratios generally improved, deterioration in fee income and overhead ratios detracted from profitability.
- The state's median ROA was also dampened by the high proportion of young institutions. Institutions open less

than three years, which accounted for 27 percent of all institutions based in the state, reported a median ROA of 0.12 percent. Insured institutions open between three and nine years, which represented another 39 percent of charters, posted a median ROA of 0.83 percent. Older insured institutions reported an impressive median ROA ratio of 1.41 percent, in part because many specialized in high-yielding consumer lending.

### Arizona-based institutions reported elevated brokered deposit dependence.

- Roughly 45 percent of Arizona-based insured institutions reported brokered deposit exposures at the end of the quarter. Although the proportion declined moderately from year-earlier levels, it far exceeded the 25 percent reported nationally (See Chart 5).
- Among institutions holding brokered deposits, the median brokered deposit-to-total asset ratio was 8.8 percent, up from 4.7 percent in June 2003, and significantly above a 3.6 percent median ratio reported nationwide.
- Brokered deposit funding costs may be more sensitive than other deposit products to rising interest rates.

Chart 4: Small Business Loan Growth Rebounded Among Arizona-Based Institutions

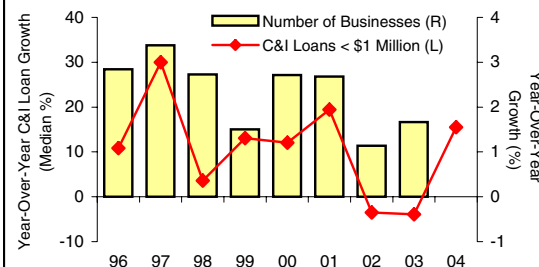
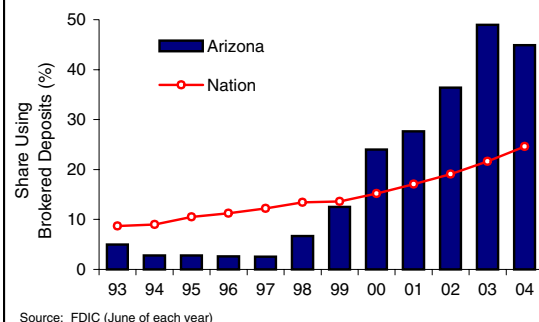


Chart 5: Nearly Half of Arizona's Insured Institutions Used Brokered Deposits



## Arizona at a Glance

<b>General Information</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Institutions (#)	49	49	44	47	50
Total Assets (in thousands)	52,921,238	53,058,387	44,358,772	70,204,058	56,747,793
New Institutions (# < 3 years)	13	15	10	14	14
New Institutions (# < 9 years)	32	32	25	25	26
<b>Capital</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Tier 1 Leverage (median)	9.85	9.76	8.98	10.13	9.68
<b>Asset Quality</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Past-Due and Nonaccrual (median %)	0.42%	0.43%	0.85%	0.89%	0.86%
Past-Due and Nonaccrual >= 5%	1	2	2	6	1
ALLL/Total Loans (median %)	1.07%	1.16%	1.30%	1.31%	1.22%
ALLL/Noncurrent Loans (median multiple)	3.76	4.61	2.67	1.97	2.97
Net Loan Losses/Loans (aggregate)	4.12%	3.95%	5.16%	2.29%	1.82%
<b>Earnings</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Unprofitable Institutions (#)	7	11	7	13	11
Percent Unprofitable	14.29%	22.45%	15.91%	27.66%	22.00%
Return on Assets (median %)	0.86	0.90	0.78	1.13	1.04
25th Percentile	0.31	0.15	0.16	-0.36	0.26
Net Interest Margin (median %)	4.88%	4.48%	4.87%	5.11%	5.55%
Yield on Earning Assets (median)	5.93%	6.05%	6.95%	8.84%	8.96%
Cost of Funding Earning Assets (median)	1.18%	1.43%	2.13%	3.78%	3.60%
Provisions to Avg. Assets (median)	0.17%	0.20%	0.26%	0.26%	0.25%
Noninterest Income to Avg. Assets (median)	0.60%	0.79%	0.88%	0.72%	0.68%
Overhead to Avg. Assets (median)	3.77%	3.72%	4.12%	4.20%	4.38%
<b>Liquidity/Sensitivity</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Loans to Deposits (median %)	93.40%	82.40%	81.16%	84.11%	80.47%
Loans to Assets (median %)	74.34%	68.23%	70.65%	69.31%	71.40%
Brokered Deposits (# of Institutions)	22	24	16	13	12
Bro. Deps./Assets (median for above inst.)	8.78%	4.70%	13.98%	8.61%	5.53%
Noncore Funding to Assets (median)	15.26%	16.14%	17.10%	17.86%	15.94%
Core Funding to Assets (median)	68.72%	68.60%	65.78%	66.16%	72.52%
<b>Bank Class</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
State Nonmember	30	26	19	20	22
National	14	16	16	17	18
State Member	1	3	6	6	6
S&L	0	0	0	0	0
Savings Bank	4	4	3	4	4
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
Phoenix-Mesa AZ	34	47,647,143	69.39%	90.03%	
Tucson AZ	5	3,695,982	10.20%	6.98%	
Las Vegas NV-AZ	4	1,216,420	8.16%	2.30%	
Yuma AZ	3	212,768	6.12%	0.40%	
No MSA	2	93,629	4.08%	0.18%	
Flagstaff AZ	1	55,296	2.04%	0.10%	